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Law 1/2019 of 20 February on Trade Secrets

February 2019

1. Introduction

Law 1/2019 of 20 February on Trade Secrets (“**Trade Secrets Law**” or “**TSL**”), which will come into force on 13 March 2019, was published today. The TSL transposes, into Spanish law, Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016, on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (the “**Directive**”) and replaces the trade secrets regulations under the Unfair Competition Law (“**UCL**”).

The Directive, which has now been transposed, aims to harmonise the differences in the regulations on the protection of trade secrets in the different Member States. These differences, according to the European legislator, discouraged cross-border business in the field of innovation and transfer of innovative knowledge.

The Trade Secrets Law establishes, as did article 13 UCL, the regulation on the legal protection of trade secrets under private law and in a general context. The Trade Secrets Law is complemented by other labour, criminal, procedural and administrative rules.

A trade secret is a type of intellectual property that has as its object the confidential information relative to any aspect of the business. This type of intellectual property entitles its owner to prevent the acquisition, use and disclosure of the protected information when it is apparent from the facts of the case that these practices are inappropriate according to the law.

Transposing the Directive through a special law, rather than reforming the UCL, has not completely separated the protection of trade secrets from the regulation against unfair competition. This is confirmed by the second final provision of the TSL which maintains the classification of the violation of trade secrets as unfair conduct. Leaving aside theoretical aspects, in practice, this provision is in fact limited to the scope of the commercial courts’ objective jurisdiction to handle cases of violations of trade secrets and to apply procedural specialties in relation to unfair competition procedures concerning aspects that are not specifically dealt with in the TSL.

2. Main changes

2.1. SUBSTANTIVE CHANGES

A) Trade secret definition

The most noteworthy changes in the new regulation are that it provides a definition of trade secret – which Spanish law did not provide until now and which the Spanish courts have found, as the Directive has done, in Article 39 of the TRIPS Agreement – and clarifies the type of information (including knowledge) that constitutes its subject matter.

The information or knowledge that is (and can be) protected as a trade secret, which in contrast to other types of legally-protected information or knowledge (such as privileged information, official secrets, personal data, etc.), relates to any area of the business, and in particular to both industrial, scientific and technological areas as well as organisational, commercial and financial ones.

The requirements for company-related information to be protected as a trade secret are that it be secret, that it have commercial value and that reasonable measures have been taken to protect its secrecy.

In this regard, **(i) the information is secret** when it is not generally known among or readily accessible to persons in professional circles that normally deal with this type of information, **(ii) the information has commercial value** if it entails that the information or knowledge gives its owner a current or potential competitive advantage specifically because it is secret and is kept that way, and especially, because its owner knows the information and can decide to use it or not vis-à-vis those who lack the information or knowledge and are interested in obtaining it, and **(iii) reasonable steps have been taken to keep this information secret** if its owner has adopted measures and practical arrangements that by their very nature are adequate to maintain the confidentiality of the information and that by their design and application are sufficient to this end given its importance, the expected form or type of violation and the risk of it actually occurring. The reasonable steps taken to keep the information and knowledge secret must be supplemented with the obligation to maintain the information secret by those who, because of their position, have access to it, where this obligation is not established by law.

B) Distinction between trade secrets and employees' knowledge, experience and skills

The TSL does not include the *experience and skills acquired* (by employees) *in the normal course of their employment* among the types of information that constitute a trade secret (section 2, paragraph 5 of the Preamble TSL). This principle has been transferred to the TSL by stating that the protection of trade secrets cannot limit employees' mobility and, specifically, that it cannot be used as a ground for restricting their use of this experience and skills. Accordingly, case law has been codified into law. It states that the legal protection of trade secrets cannot be used to prevent employees from using their experience and skills once their employment contract is terminated, either for their own benefit or if they are employed by another company. This is due to the fact that employees' experience and skills (acquired honestly by performing their work) constitute professional goodwill and not a trade secret that belongs to the employer. Nevertheless, safeguarding worker mobility does not mean that legal measures cannot be used to protect information that constitutes a trade secret to avoid it being used by third parties, even when using the information is unavoidable for the employee to perform his or her duties at another company.

The line separating experience and skills from information that constitutes a trade secret is not well-defined. Some useful indicators, notwithstanding the fact that the specific circumstances have an important bearing in this respect, are the following: in general, experience and skills are the professional preparation of employees who have occupied similar job positions and thus are able to take up those positions again or even move into higher or related positions, even when such preparation derives from the employer's training activities; general knowledge about the market, its operators and its regulators, and the personal relationships established with those operators and regulators.

In contrast, "experience or skills gained by the employee" do not include the following: knowledge attained about specific techniques, processes, products and services, organisational systems, business strategies and initiatives, sources and financing techniques, etc. that the employer uses or merely possesses and passes on to its employees for them to perform their work; information that employees are unable to unaidedly commit to memory (although this does not necessarily mean that what can be committed to memory constitutes experience and skills); information regarding the specific nature of the employer's relationships with its competitors, customers and suppliers and their developments, etc.

C) Acts which constitute a violation of trade secrets

The acts that are considered to be potential violations of trade secrets include (i) obtaining a secret (by attaining it or the source from which it derives); (ii) using it (in any way) and disclosing it (by making it public or merely divulging it to third parties even when the communication carries a duty of secrecy) (article 3.1 and 2 TSL); and (iii) the production and commercial exploitation of the so-called infringing goods or “*products and services whose design, characteristics, operation, production process, or commercialisation benefit significantly from trade secrets illicitly obtained, used or disclosed*” (article 3.4).

Each of these acts is substantively independent from the others and can in itself constitute a violation of trade secrets (if the circumstances that imply its illegality are present).

These acts are further defined by specifying the circumstances in which they are unlawful (an actual violation of trade secrets). Essentially, they include, as regards acquiring the secret, the lack of consent by its owner, in relation to its use, the prior unlawful acquisition or breach of the conditions established by the owner for its use and finally, with regard to its disclosure, the prior unlawful acquisition or breach of a confidentiality obligation. The former requirement in article 13 UCL, under which the purpose of the infringement was to obtain a profit or cause detriment to another, is excluded.

In this regard, one of the most important changes introduced by the TSL is that it extends the unlawfulness of obtaining, using and disclosing trade secrets to those who obtain them when they know, or should know, that they are obtaining the information from someone who is revealing or using it unlawfully (article 3.3). In this respect, producing and commercially exploiting the infringing goods is also considered unlawful when the operators know, or should know, that such goods unlawfully include the trade secret.

D) Lawful acts

Now that the intentionality element has been excluded, the definition of the acts which are considered to be a violation of trade secrets also includes a list of acts of obtaining, using or disclosing information that are lawful or safe from trade-secret protective measures based on interests which require greater protection (article 2). These lawful acts include, amongst others, the following: (i) the obtaining of the secret by independent discovery or creation or through reverse engineering or (ii) obtaining, using or

disclosing secrets “with the aim of protecting a legitimate interest recognized by European or Spanish law” (as would be the case of disclosure under leniency programmes under antitrust regulations or the reporting of unlawful acts to the competent authorities in general).

E) Non-exhaustive list of civil actions to protect trade secrets

The TSL provides a non-exhaustive list of civil actions to protect trade secrets. The list includes the most important remedies available to the owner of a trade secret and defines their scope: declaration of the offence, cessation (including coercive measures); seizure of infringing goods for their modification, destruction or delivery to charities; removal; allocation of ownership of the infringing products; compensation for damages; and publication or communication of the judgment (articles 8 and 9). The TSL sets out the criteria according to which the amount of the compensation for damages must be calculated, in line with article 74 of the Spanish Patents Law (the “SPL”).

Especially noteworthy is the specification of the circumstances to be taken into account to define the scope of the cessation and publication of the judgment, the acceptance of the possibility of replacing the cessation and the removal including compensation for damages when the violation of the trade secret is not intentional and the measures would cause disproportionate harm to the infringer.

F) Trade secrets as property rights

In addition, for the first time under Spanish law, and without it being required by the Directive, the TSL (chapter III) includes the regulation of trade secrets as a property right. The legal protection of trade secrets in the TSL grants their owner a subjective economic right, and after acknowledging their transferability through assignment and licensing, establishes the general legal regulation on joint ownership of trade secrets and trade-secret licences in line with the SPL (articles 4 to 6). In addition, those who have no title or powers to assign or license business secrets of others are liable for damages (article 7).

2.2. CHANGES TO PROCEDURAL RULES

The TSL regulates an array of procedural matters in order to offer the owners of trade secret the tools to effectively protect their rights (article 12 and following) going, in many aspects, beyond the Directive.

A) New rules to keep information confidential during legal proceedings

The TSL regulates, for the first time in Spain, specific rules to keep confidential any information that is provided or generated in infringement proceedings that constitutes a trade secret (article 15). The strengths of this regulation can serve as a basis to create measures that, in other proceedings, such as those regarding infringements of intellectual property rights, are implemented to protect trade secrets included to the case file.

B) Extension of the measures to prepare for infringement proceedings

The TSL has extended the measures available to prepare for infringement proceedings, which not only comprise the inquiries to substantiate facts, set out in the SPL to date, but also measures of access to sources of evidence introduced by the Spanish Civil Procedure Law for proceedings involving claims for damages for infringement of competition law, as well as measures to secure evidence (articles 17 to 19).

C) Legal standing of licensees

The TSL grants legal standing to exercise the rights of defence to licensees (whether or not exclusive licensees), provided that the trade secret owner expressly authorises them for that purpose.

D) Special provisions on injunctive relief

The TSL includes special rules on injunctive relief, and it also refers to the SPL and to the Spanish Civil Procedure Law (articles 20 to 25). The special rules ensure that the granting of injunctive relief takes into account all the circumstances of the case to ensure that it is proportionate, that it is lifted when the information ceases to be a trade secret, and that its negative consequences for third parties are taken into account (articles 20 and following). On another note, by referring to the SPL the TSL implicitly allows the use of protective letters in trade secrets infringement proceedings. This may be especially beneficial for employees who wish to use their experience and knowledge in exercising their right to worker mobility or for those who have obtained the protected information through reverse engineering.

3. Overall assessment

In general, the TSL has substantially changed the regulation of the legal protection of trade secrets. It affords the Spanish legal system a regulatory framework that is more complete substantively, technically better and, in general, more efficient and swift procedurally. However, it is perhaps less incisive because it has incorporated the safeguards and considerations upon which the Directive establishes the granting of remedies and injunctive relief is conditional. Contrary to the former regulation, and unlike with other types of intellectual property, it is worth mentioning that, with regard to trade secrets, both Spanish and European legislators have introduced rules to restrain the award of remedies, such as proportionality, the importance of the trade secret, and the protection of third-party interests.

However, the TSL does not change, because it is highly difficult to do so, an essential aspect of the former regulation: owners of trade secrets who, upon a violation of their rights, must file a legal claim to protect their rights are unlikely to find a solution that fully protects their interests. Often, if the requirements for granting the injunctive relief prior to the claim are inflexible and if the proportionality requirements are not interpreted in a rational way, the remedies that courts grant will be inadequate to guarantee the integrity and commercial value of trade secrets. Indeed, when a trade secret owner files a claim to protect its interest, the infringing party will most likely have already accessed and, as the case may be, used and disseminated the protected information to a greater or lesser extent.

Accordingly, any real effort to protect trade secrets must focus on implementing a preventive strategy in the form of policies to protect trade secrets and information which is a potential trade secret so as to prove and uphold their existence and retain control over them and on including sound contractual clauses (damages, exclusivity, specific performance clauses, etc.).

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